



State of Rhode Island and Providence Plantations

Department of Administration  
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December 22, 2014

Mr. A.T. Wall  
Director  
Department of Corrections  
40 Howard Avenue  
Cranston, Rhode Island 02902

Dear Director Wall:

The Bureau of Audits has completed its procurement audit of Rhode Island Department of Corrections. The audit was conducted in accordance with Rhode Island General Law (RIGL) §35-7-3. The recommendations included herein have been discussed with members of management, and we considered their comments in the preparation of this report.

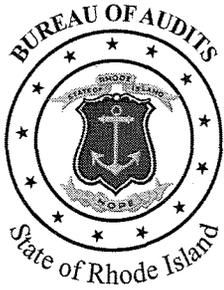
RIGL §35-7-3(b), entitled Audits performed by bureau of audits, states that, "Within twenty (20) days following the date of issuance of the final audit report, the head of the department, agency or private entity audited shall respond in writing to each recommendation made in the final audit report.." Accordingly, management submitted its response to the audit findings and recommendations on December 19, 2014, and such responses are included in this report. Pursuant to this statute, the Bureau may follow up regarding recommendations included in this report within one year following the date of issuance.

We would like to express our sincere appreciation to Patricia Coyne-Fague, Joanne Hill and Brenda Brodeur for the cooperation and courtesy extended to the members of our team during the course of this audit.

Respectfully yours,

  
Dorothy Z. Pascale, CPA  
Chief

c- Steven Hartford, Director, Department of Administration  
Honorable Daniel DaPonte, Chairperson, Senate Committee on Finance  
Honorable Raymond Gallison, Chairperson, House Finance Committee  
Dennis Hoyle, CPA, Auditor General  
Thomas Mullaney, Acting Director, Office of Management and Budget, Department of Administration  
Marc Leonetti, CPA, State Controller, Department of Administration



## Executive Summary

### *Why the Bureau Did This Review*

This audit was performed as a result of the Bureau's annual risk-based evaluation. The purposes of this engagement are to:

- Assess the efficiency of operations related to the requisitioning of goods and materials.
- Evaluate the effectiveness of internal controls governing procurement.
- Identify opportunities to improve the efficiency of procurement processes.

### *Background Information*

The Rhode Island Department of Corrections was established in 1972 by R.I.G.L. 42-56. Collectively known as the Adult Correctional Institutions (ACI), there are seven separate, occupied facilities, which have a total operational capacity of 3,774 beds. In FY 2013, the average institutionalized population was 3,160.

The Rhode Island Department of Corrections' general revenue budget for FY 2015 is approximately \$210M, of which \$189M (90%) is general revenue.

### *The Bureau Recommends ...*

- Re-evaluating the purchasing approval structure
- Performing procurement requests solely within the State electronic procurement system (RIFANS)
- Allowing management personnel to electronically approve invoices
- Reviewing accounting system access to ensure appropriate least privilege access rights.
- Providing additional RIFANS procurement and reporting function training
- Shifting the responsibility of contract management from the Business Office to program management
- Revising the emergency procurement policy

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## Objectives

The Bureau of Audits (Bureau) performed an audit of the State of Rhode Island Department of Corrections (RI DOC) procurement processes. The purpose of this engagement was to:

1. Assess the efficiency of operations related to the requisitioning of goods and materials.
2. Evaluate the effectiveness of internal controls governing procurement.
3. Identify opportunities to improve the efficiency of procurement processes.

## Methodology and Scope

Our standards require that we plan and conduct our audit to adequately assess those operations we include in our audit scope. Further, these standards require that we understand the program's internal control structure and its compliance with the laws, rules and regulations that are relevant to operations. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting system and applying such other auditing procedures as we consider necessary in the circumstances.

The Bureau examined records and activities for the audit period July 1, 2012, through September 30, 2014. Our audit procedures were conducted during September 2014. Specifically, we performed the following:

- Reviewed internal RI DOC policies
- Reviewed State of Rhode Island Procurement Regulations
- Interviewed RI DOC staff regarding their role in procurement
- Observed current procurement practices
- Reviewed procurement contract bid solicitation files
- Analyzed a sample of RI DOC completed purchases
- Flowcharted RI DOC's procurement processes
- Interviewed Department of Revenue (DOR) Budget Office, Department of Administration (DOA) Office of Accounts and Control (Accounts and Control), and DOA Division of Purchasing (Purchases) personnel
- Analyzed analysis of RI DOC expenditures

## Background

The Rhode Island Department of Corrections was established in 1972 by R.I.G.L. 42-56. Collectively known as the Adult Correctional Institutions (ACI), there are seven separate occupied facilities which have a total operational capacity of 3,774 beds. During FY 2013, the average institutionalized population was 3,160.

The RI DOC mission, as provided in the annual budget document is:

*To operate a full and balanced correctional program which is consistent with public safety, reflects sound and progressive correctional policy, and is sensitive to the need for fiscal responsibility in the use of public resources.*

The Rhode Island Department of Corrections' general revenue budget for FY 2015 is approximately \$210M, of which \$189M (90%) is general revenue.

### **Control Summary**

The Bureau encountered a tone from the top which stressed budgetary discipline and cost savings. While a steadfast position for fiscal responsibility can be helpful in limiting unnecessary spending, consideration must also be given to the needs of individual units and the effects of budgetary controls to daily operations.

In an effort to constrain spending, RI DOC senior management implemented a complex, paper-based procurement approval system prerequisite to the State electronic procurement system. The needs of the individual units and the effects of budgetary controls on daily operations were secondary to RI DOC management imposed, paper-based purchasing controls.

All purchase requests are required to be reviewed by layers of management and non-management staff, including the Director, prior to the request being initiated in the State procurement system. This layering of approvals has created workload redundancies, low employee morale, purchase processing delays, and has resulted in staff overtime. Further, this multi-layered approval processes has diminished individual accountability, because the decision-making is distributed upon multiple personnel whose approval authority conflicts with their duties and responsibilities.

The issues identified below stem from this management view that extensive centralized control must be exerted over departmental staff to control spending. Prior to the release of this report, RI DOC senior management initiated many of the recommendations noted herewith in an effort to balance the associated control risks with improved operational efficiencies.

# Recommendations for Improvements and Management Responses

## Streamline the Purchase Requisition Process

Internal control, as defined by the Government Accountability Office (GAO), is:

*An integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:*

- *Effectiveness and efficiency of operations*
- *Reliability of financial reporting, and*
- *Compliance with applicable laws and regulations.*

*... Management should design and implement internal control based on the related cost and benefits.<sup>1</sup>*

Controls should be based on the risk associated with management achieving its objectives, and should only be implemented to the extent that the cost of the control does not outweigh the benefit derived.

The State electronic procurement system (RIFANS) is designed so that all requisitions can be initiated and finalized online. This system includes an internal control structure (also known as the hierarchy) to ensure transactions are authorized by appropriate personnel at the requisitioning agency, the Department of Administration's Division of Purchases, and the Department of Revenue's Budget Office.

RI DOC has implemented its own paper-based internal requisition system with additional controls that must be satisfied prior to initiating a RIFANS requisition. The paper forms must be handled by up to seven individuals, approved with up to nine signatures, and are walked/emailed/faxed throughout the RI DOC campus before the electronic requisition is initiated. Each RI DOC point of contact maintains an excel spreadsheet, and paper and electronic copies of these forms for tracking purposes. The RI DOC paper-based system and its associated controls:

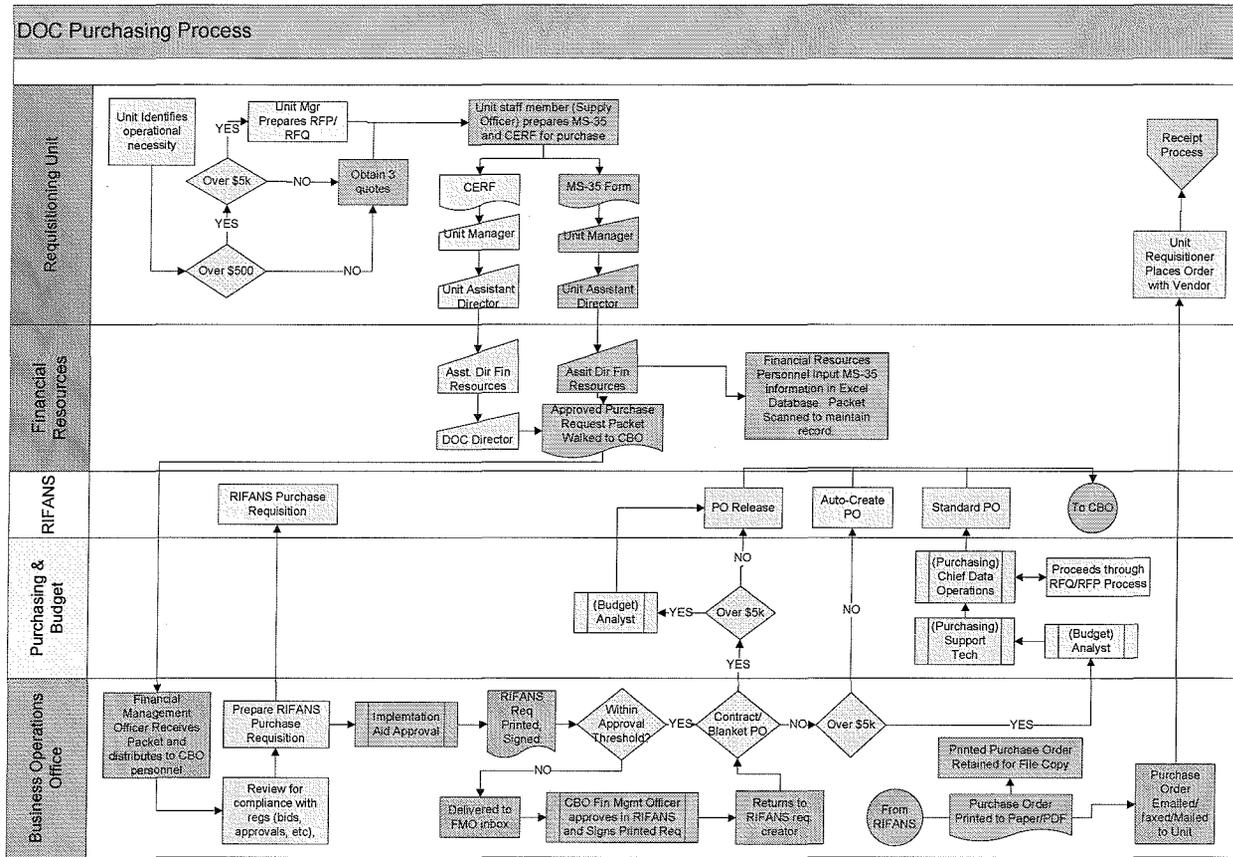
1. Duplicate controls in the State electronic system
2. Delay procurement
3. Waste staff time

Personnel currently wait an average of 20 calendar days after creating an internal paper requisition to obtain an approved electronic purchase order.

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<sup>1</sup> United States. Government Accountability Office. *Standards for Internal Control*. November 1999, GAO/AIMD-00-21.3.1

The Bureau has included a flow chart of the current requisition process at RI DOC below<sup>2</sup>:



Once the requisition is initiated in the electronic system, RI DOC Business Operations personnel create paper files of the procurement. A copy of each requisition, purchase order, invoice, and payment is maintained within the paper file and manually tracked. Since the official record of payment is held at the Department of Administration’s Accounts and Controls section, these paper files are duplicative and unnecessary.

The RI DOC current procedures do not balance the procurement risks with cost of the associated controls. Management has not taken advantage of the internal controls and the capabilities of the electronic procurement system, resulting in inefficient use of personnel time and resources.

**Recommendations**

1. Require that requisitioning be performed within the electronic procurement system.
2. Discontinue use of the Excel spreadsheets to track purchases.
3. Discontinue use of the databases of scanned paper internal requisition forms. Supporting documentation should be uploaded as attachments to requisitions in RIFANS.

<sup>2</sup> Processes are color coded and have the following meanings:

- Green – Process required by statewide purchasing process
- Orange – Additional Control imposed by RI DOC management
- Yellow – Decision Point

### *Management's Responses*

The Department does concede that the paper process is cumbersome and duplicative of what could be achieved through the RIFANS system. The MS-35 process existed before implementation of the RIFANS system. At the time when the RIFANS system was implemented, there was a management decision early-on that the majority of staff would not understand the complexities of the procurement system and that too many mistakes would be made by allowing the entry of requests at the unit level. As a result, the MS-35 system was never eliminated. The Department agrees to eliminate the MS-35 process and fully implement the use of the RIFANS system for procuring all goods and services with the point of entry to be made at the various units and not at the Central Business Office as it currently is now. Recommendations 2 and 3 will also be discontinued.

**Responsible Parties:** Overseen by the Associate Director - Financial Resources/CFO (Joanne Hill). Assisted by the Assistant Director of Contracts and Financial Management (Brenda Brodeur).

**Anticipated Completion Date:** Targeted for completion no later than June 30, 2015.

## **Align Procurement Roles and Responsibilities to Improve the Control Environment**

To ensure an environment of effective internal control and accountability, procurement authorization limits and approval structures should align with the Department organizational chart and staff roles and responsibilities. Government Accountability Office (OAG) Internal Control Standards advises:

*A good internal control environment requires that the agency's organizational structure clearly define key areas of authority and responsibility and establish appropriate lines of reporting...The [control] environment is also affected by the manner in which the agency delegates authority and responsibility throughout the organization.<sup>3</sup>*

The Bureau reviewed the RIFANS procurement hierarchy. Staff roles and responsibilities do not align with the respective dollar threshold approval limits. For example, employees with similar roles are assigned different approval authorizations. In some cases, requisitions initiated by management must be approved by non-management personnel who may not have the necessary financial information or technical experience to determine the appropriateness of the procurement. Further, these lower-level employees may feel pressure to authorize the purchases requested by management. The current process does not result in a quality control environment.

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<sup>3</sup> United States. Government Accountability Office. *Standards for Internal Control*. November 1999, GAO/AIMD-00-21.3.1

### *Recommendations*

4. Develop and implement a procurement policy that aligns procurement authorization limits with the organizational chart and personnel roles and responsibilities.
5. Reevaluate procurement approval hierarchies in the State accounting system to align roles and responsibilities with procurement authorization limits.

### *Management's Responses*

The Department's hierarchy is a reflection of the decision made to keep a limited number of users authorized to enter procurements in the RIFANS system. Also, there are also reasons why there are staff entering procurements with different levels of authority either due to action taken by the Department to institute added scrutiny for those individuals or because there was an issue with the quality of work being done. The Department does agree that changes are necessary and has begun to look at what steps could be taken to start implementing changes for those that would not need extensive RIFANS training.

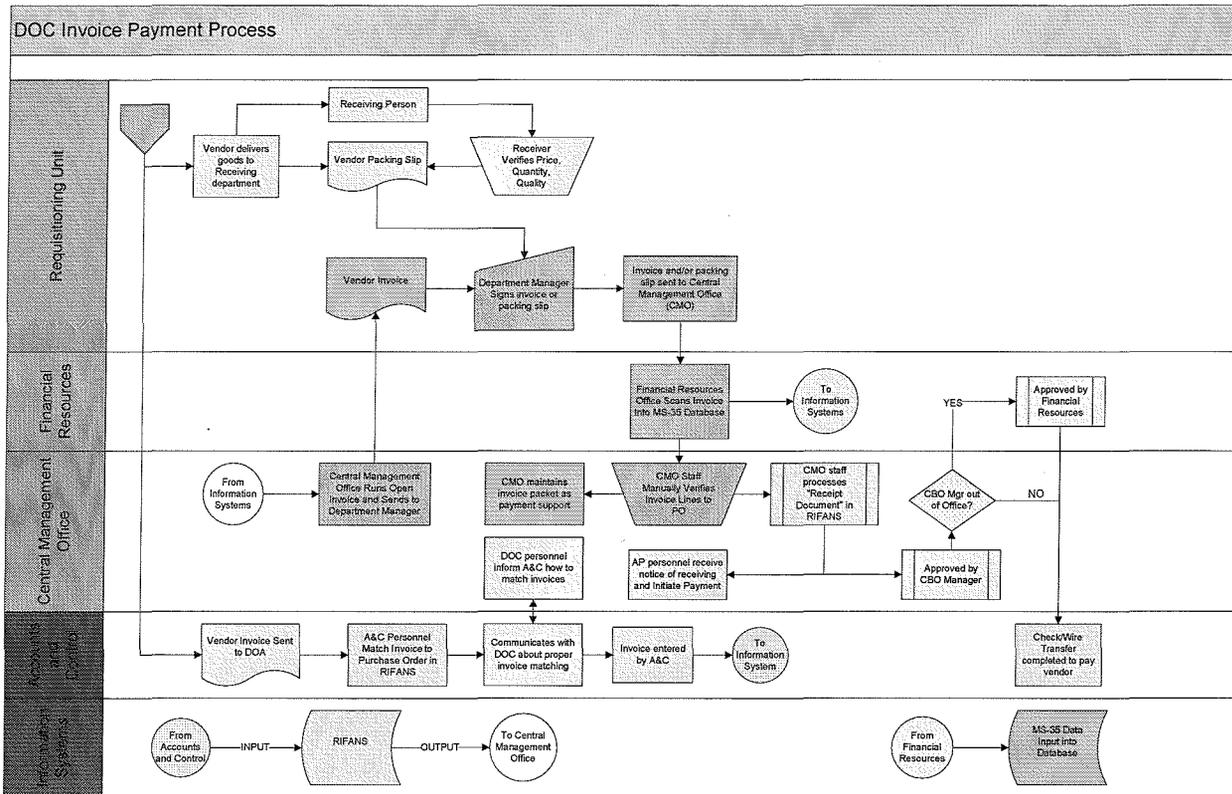
***Responsible Parties:* Overseen by the Associate Director - Financial Resources/CFO (Joanne Hill). Assisted by the Assistant Director of Contracts and Financial Management (Brenda Brodeur).**

***Anticipated Completion Date:* Targeted for completion no later than June 30, 2015.**

### **Streamline the Invoice Approval Process**

RIGL §42-11.1-5 requires that State vendors are paid within 30 business days of invoice receipt. The RIFANS hierarchy approval process has been designed so that departmental personnel can approve invoices electronically and comply with the 30-day payment requirement. However, RI DOC does not permit unit personnel outside of the RI DOC Business Operations unit to approve invoices in the

electronic procurement system; instead it has developed a paper-based invoice payment approval process outlined below<sup>4</sup> which restricts electronic invoice approval to the Business Operations office.



The above process has resulted in instances where vendors have not been paid within the required 30-day payment period.

Additionally, restricting the invoice data entry and approval process to the Business Office has resulted in staff working overtime to accomplish the tasks. During fiscal year 2014, the Business Office overtime was \$83,886. Immediate savings could be realized by fully utilizing RIFANS and streamlining the invoice process.

**Recommendations**

6. Grant employees authority to approve invoice payments consistent with their roles.
7. Grant employees access to RIFANS so that they can approve invoices electronically.

<sup>4</sup> Processes are color coded and have the following meanings:

- Green – Process required by statewide purchasing process
- Orange – Additional Control imposed by RIDOC management
- Yellow – Decision Point

### *Management's Responses*

The Department has been instructed that an employee with requisitioning authority cannot have invoice approval authority. Coupled with the limited number of staff trained in the RIFANS system, this premise has also been part of the reason for the limited number of staff with invoice approval authority. The Department will work with the State Controller's office to expand the number of staff that can approve invoices.

**Responsible Parties: Overseen by the Associate Director - Financial Resources/CFO (Joanne Hill). Assisted by the Assistant Director of Contracts and Financial Management (Brenda Brodeur).**

**Anticipated Completion Date: Targeted for completion no later than June 30, 2015.**

## **Reassess Assignment of User Access to RIFANS**

The Bureau reviewed the active RIFANS licenses associated with RI DOC as of September 30, 2014. As of this date, RI DOC had 56 active RIFANS licenses for 54 employees.<sup>5</sup> Twenty four of the 56 licenses, or 43% of users, have not logged into the system in more than one year, and 13 of these licensees have never accessed the system since they were created (approximately eight years ago). This inactivity is a direct result of RI DOC policy 2.13-3, "Requisitioning and Purchasing of Commodities and Services," which prohibits the requisitioning of goods and services by anyone outside of the RI DOC Business Operations Office (refer to *Streamline the Invoice Approval Process* issue noted above). This inefficiency has been further affected by the lack of employee education regarding the State procurement system.

Access to the accounting and procurement systems should be granted and monitored based on least privilege; failure to control access privileges presents a cybersecurity risk. Dormant authorized licenses with profiles and passwords may present an unauthorized and undetected access to the system. The agency should consider the generic user sign in for those staff that require report information only.

Further, we estimate the 24 unused licenses cost the RI DOC \$96,000 per year.

### *Duplicate Licenses*

RI DOC also had two users with duplicate licenses. For one user who was issued two licenses, both licenses were set up with an authority level of requisitioner; the duplicate license was never used. For the other user, the duplicate license presents a potential internal control issue: one license has a requisitioner profile, and the other has an approver profile. Two user profiles for a single employee to both requisition and approve purchases may be a breakdown of controls designed to ensure appropriate segregation of duties.

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<sup>5</sup> RIDOC had two duplicate licenses at an annual cost of \$4,002 per license. Amounts presented are rounded to nearest 100.

### *Recommendations*

8. Reevaluate RIFANS Oracle licenses assigned for requisition and approval transactions.
9. Train staff assigned RIFANS Oracle licenses on system capabilities and reporting.
10. Train management about State procurement system information reporting capabilities using the generic user login.

### *Management's Responses*

The Department agrees that there are unused licenses; however, that will be corrected with the new hierarchy that is established as users will be required to use the RIFANS system with elimination of the MS-35 process as there will be no other means to obtain goods and services. The Department will work with the State Controller's office and Office of Purchases to establish training sessions for those that will be using the RIFANS system, procurement, contract management and reporting functions.

**Responsible Parties: Overseen by the Associate Director - Financial Resources/CFO (Joanne Hill). Assisted by the Assistant Director of Contracts and Financial Management (Brenda Brodeur).**

**Anticipated Completion Date: Targeted for completion no later than June 30, 2015.**

## **Shift Responsibility of Contract Management from the Business Office to Program Management**

RI DOC has designated Business Operations personnel to manage the agency's contracts and be the point of contact with the Division of Purchases for contract solicitation and development. The practice established responsibility to the Business Operations unit to:

- Determine the contract award amount
- Monitor the contract spend amount, available balance, and expiration date
- Track payments to vendors
- Request contract balance increases when necessary

This practice poses a risk that the Business Operations may not communicate RI DOC discussions with the Division of Purchases or the vendor to program management. The contract manager is not responsible or held accountable for fiscal decisions. Contract managers should be knowledgeable and experienced regarding the specific needs of the program to ensure the contracted goods and services fully address the needs of the RI DOC program.

For example, the Central Distribution Center (CDC) personnel coordinate with vendors daily to procure goods that consider the nutritional quality and distinctive prison population. Likewise, Facilities and Maintenance personnel are certified and licensed tradesmen and engineers with years of on the job experience. Personnel in the Business Operations Office are not specifically educated or experienced in either of these specialized areas.

Under the current policy, program needs may not be adequately communicated, resulting in vendor contracts that may not meet the needs of the facilities.

***Recommendation***

11. RI DOC should designate an employee with the appropriate level of knowledge and experience to be the contract program manager in each unit.

***Management's Response***

The Department agrees that contract management should be completed by the contract manager and a number of employees are currently performing these services; however, in many cases these contract management and oversight duties were not being done correctly.. This has resulted in some of the work reverting back to the Business Office to insure that contracts did not lapse or funds run short. It should be noted that the Business Operations does not claim to be knowledgeable in the subject matter of the contract and does not create the contract award amount. This is completed during the bid process, the release amount may be discussed/changed by the Business Operations unit if the contract manager is requesting to encumber the full amount of the contract.

***Responsible Parties:*** This shift to move responsibilities to identified contract managers shall be overseen by the Associate Director - Financial Resources/CFO (Joanne Hill). Assisted by the Assistant Director of Contracts and Financial Management (Brenda Brodeur).

***Anticipated Completion Date:*** Targeted for complete transition no later than December 31, 2015.

## **Utilize the RIFANS Reports to Improve Contract Financial Management of Agency Purchase Agreements**

RI DOC Managers are not utilizing the accounting and procurement system reporting capabilities to manage agency purchase agreements. Staff has not been trained to use system reporting functionality. Currently, staff monitor contract spend amounts using Excel spreadsheets and paper tracking forms independent of the Business Office. This presents the potential risk of inaccurate information resulting from manually recording the same information in three places (system, Excel sheet, paper form) by different people.

***Recommendations***

12. Discontinue the use of manual tracking systems for contract management.
13. Utilize reporting features available in the state accounting and procurement system.
14. Train personnel to use the reporting capabilities of the state accounting and procurement system.
15. Communicate contract procurement status and financial information to the related units.

### *Management's Responses*

The Department agrees with this assessment and will take steps to implement the recommendations. It should be noted, however, that there are shortfalls in the RIFANS reporting functions as it relates to contract management. The Department will take steps to insure that contract management staff will be provided the necessary training on the RIFANS system reporting functions to assist staff in contract oversight functions.

**Responsible Parties: Overseen by the Associate Director - Financial Resources/CFO (Joanne Hill). Assisted by the Assistant Director of Contracts and Financial Management (Brenda Brodeur). All unit managers within the Department will also require training and their cooperation to fully complete this task.**

**Anticipated Completion Date: Targeted for completion no later than December 31, 2015.**

## **Improve Financial Reporting and Program Budget Oversight**

Management personnel require timely and relevant financial information to make informed decisions. This information is available through RIFANS reporting functions. However, not all RIDOC management personnel utilize or have access to these system reports. Instead, many business units rely upon manually tracking financial and operational data with electronic spreadsheets.

RIDOC policies and procedures related to the use of the RIFANS reporting functions are incomplete and inaccurate.<sup>6</sup> Additionally, during our interview process, RIDOC personnel represented that they have not been trained to use RIFANS reporting functions. As a result, these managers are having difficulty assessing the financial position of their unit and making informed decisions about expenditures. Also refer to: *Shift Responsibility of Contract Management from the Business Office to Program Management*.

### *Recommendations*

16. Revise procedures addressing RIFANS financial reports.
17. Provide training about the reporting functions of the accounting and procurement systems.
18. Provide management access to the State accounting and procurement system reporting functions.

### *Management's Responses*

The Department agrees with this assessment and will take steps to implement the recommendations.

**Responsible Parties: Overseen by the Associate Director - Financial Resources/CFO (Joanne Hill). Assisted by the Assistant Director of Contracts and Financial Management (Brenda Brodeur). All unit managers within the Department will also require training and their cooperation to fully complete this task.**

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<sup>6</sup> DOC Policies A.5.28 and A.5.27

**Anticipated Completion Date:** Targeted for completion no later than December 31, 2015.

## **Reassess Emergency Procurement Process**

RI DOC's policies and procedures 2.13-3, "Requisitioning and Purchasing of Commodities and Services," and 9.40-4, "Procedures for Contractors at Institutional Facilities," do not provide procedures for institutional staff to adequately address emergency repair needs on Saturdays, Sundays, and holidays. Individuals designated to approve emergency contractor services do not work weekends and holidays.

The current policies do not:

- Reflect current practices, including the involvement of maximum security and the use of an emergency beeper
- Provide an available list of emergency vendors
- Provide contact information for maintenance personnel

Outdated policies and procedures should be updated to reflect current practices and inform personnel of proper procedures and contacts. Updating the policies and procedures may reduce emergency processing procurement delays or instances where a vendor may be contracted to work without purchasing authority.

### ***Recommendation***

19. Revise the emergency procurement policy to reflect current practices and provide contact information for designated emergency response personnel.

### ***Management's Response***

The Department agrees with this assessment and will take steps to implement the recommendation.

**Responsible Parties:** Overseen by the Associate Director - Financial Resources/CFO (Joanne Hill). Assisted by the Assistant Director of Contracts and Financial Management (Brenda Brodeur) and the Associate Director of Facilities.

**Anticipated Completion Date:** Targeted for completion no later than June 30, 2015.